

## State of California

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### **Legislative Change No.**

**02-27**

Bill Number: SB 219

Author: Scott

Chapter Number: 02-807

Laws Affecting Franchise Tax Board: Revenue and Taxation Code Sections 17131, 17131.8, 17132.6, 17137, 17501, 17551, 17560, 17731, 18535, 18572, 19109, 19311, 19316, 19559, 23801, 24601 and 24667

Statutes of 2002, Chapter 35, Section 76

Uncodified Law

Date filed with the Secretary of the State: September 23, 2002

### SUBJECT:

**Senate Bill 219 (Scott), as enacted September 23, 2002, made the following changes to California law:**

Section 17131 of the Revenue and Taxation Code is amended.

This act conforms state law to the federal Victims of Terrorism Tax Relief Act of 2001 relating to items specifically excluded from gross income. These items include 1) disability income received by any individual attributable to a terroristic or military action; and 2) qualified disaster relief payments due to a qualified disaster.

A "qualified disaster" includes a disaster resulting from a terroristic or military action, a Presidentially declared disaster, a disaster resulting from an accident involving a common carrier, or from any other catastrophic event as determined by the Secretary of the Treasury. A "qualified disaster relief payment" includes:

- ◆ Any payment received pursuant to Section 406 of the Air Transportation Safety and System Stabilization Act.
- ◆ A payment from any source to or for the benefit of an individual to reimburse or pay reasonable and necessary personal (including personal property expenses), family, living, or funeral expenses incurred as a result of a qualified disaster.
- ◆ A payment from any source to reimburse or pay reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence or replacement of its contents to the extent attributable to a qualified disaster. For purposes of determining the tax basis of a rehabilitated residence, the payments should be treated in the same manner as amounts received on an involuntary conversion of a principal residence. A residence is not precluded from being a personal residence solely because the taxpayer does not own the residence; a rented residence may qualify.

Bureau Director

Roger Lackey

Date

November 6, 2002

- ◆ A payment by a person engaged in furnishing or sale of transportation as a common carrier due to death or personal physical injuries resulting from a qualified disaster.
- ◆ A payment by a federal, state, or local government agency in connection with a qualified disaster to promote the general welfare.

This exclusion does not include payments for any expenses compensated for by insurance or otherwise, or payments to any individual identified by the Attorney General to have been a participant or conspirator of a terrorist attack.

This section applies to taxable years ending on or after September 11, 2001.

Section 17131.8 of the Revenue and Taxation Code is added.

This act conforms state law to the changes made by the Economic Growth & Tax Relief Act of 2001, excluding from income amounts received as a scholarship for qualified tuition and related expenses from the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship Program.

Section 17132.6 of the Revenue and Taxation Code as amended by Section 20 of Chapter 322 of the Statutes of 1998, is amended and renumbered as Section 17132.5.

This act renumbers Section 17132.6 to 17132.5 and expands the exclusion from gross income to include amounts received from an employer due to the death of an employee who dies as a result of wounds or injury incurred resulting from the terrorist attacks that occurred on September 11, 2001, April 19, 1995, or as a result of illness incurred due to the anthrax attacks on or after September 11, 2001, and before January 1, 2002.

This section applies to taxable years ending before, on, or after September 11, 2001.

Section 17132.6 of the Revenue and Taxation Code as amended by Section 9 of Chapter 35 of the Statutes of 2002, is amended and renumbered as Section 17132.7.

This act renumbers Section 17132.6 to Section 17132.7, the Ricky Ray Hemophilia Relief Fund Act of 1998 (Public Law 105-369).

Section 17137 of the Revenue and Taxation Code is added.

This act conforms state law to federal law, allowing a maximum \$10,000 exclusion from the gross income of an employee for qualified adoption expenses paid or reimbursed by an employer under an adoption assistance program, including special needs adoptions.

Section 17501 of the Revenue and Taxation Code is amended.

This act made technical changes regarding pension conformity.

Section 17551 of the Revenue and Taxation Code is amended.

This act made technical changes regarding pension conformity.

Section 17560 and Section 24667 of the Revenue and Taxation Code are amended.

This act conforms state law to the pledge rule contained in the federal Ticket To Work Act (PL 106-170). The Ticket To Work Act expanded the pledge rule to installment promissory notes “indirectly” used as collateral for a loan.

Section 17731 of the Revenue and Taxation Code is amended.

This act extends the prior law income tax relief provided to United States military and civilian personnel who die as a result of terroristic activity or military action outside the United States to such personnel regardless of where the terroristic activity or military action occurred. This provision applies to taxable years ending on or after September 11, 2001.

Section 18535 of the Revenue and Taxation Code is amended.

This act permits a single shareholder of an S corporation to file a group return. Prior law used the term “shareholders,” thus prohibiting a single shareholder from filing a group return. This act reiterates the authority of the Franchise Tax Board to adjust the income of a nonresident included in a group return to properly reflect income.

Section 18572 of the Revenue and Taxation Code is repealed and added.

With respect to either a declared disaster or terroristic or military action, the postponement of certain tax related deadlines, such as filing a return or making estimated tax payments, may be suspended for up to one year, and the interest on underpayments may be waived or abated.

This section applies to disasters and terroristic or military actions occurring on or after September 11, 2001.

Section 19109 of the Revenue and Taxation Code is amended

This act expands the abatement of interest for disaster victims to apply to all taxpayers, including estates and trusts.

This section applies to any disaster occurring on or after September 11, 2001.

Section 19311 of the Revenue and Taxation Code is amended.

This act made technical changes regarding the time limit for filing a claim for credit or refund upon federal changes.

Section 19316 of the Revenue and Taxation Code is added.

This act allows the statute of limitations for filing claims for refund for income tax purposes to be suspended during periods where the taxpayer is "financially disabled." A taxpayer is "financially disabled" when he or she is unable to manage his or her financial affairs due to a medically determinable physical or mental impairment that is either deemed to be a terminal impairment or is expected to last for a continuous period of not less than 12 months. The taxpayer is not considered "financially disabled" during any period that the taxpayer's spouse or any other person is legally authorized to act on that individual's behalf in financial matters.

Section 19559 of the Revenue and Taxation Code is added.

This act permits the department to disclose specified tax returns and return information to appropriate federal agencies engaged in terrorism and national security investigations. However, the department would not disclose the information if it determines that disclosure would identify a confidential informant or seriously impair a civil or criminal tax investigation.

This section applies to disclosures made on or after January 23, 2002, and through December 31, 2003, after which, no disclosures are authorized under this section.

Section 23801 of the Revenue and Taxation Code is amended.

This act made technical changes regarding S corporations.

Section 24601 of the Revenue and Taxation Code is amended.

This act made technical changes regarding pension conformity.

Section 24667 of the Revenue and Taxation Code is amended.

This act made technical changes regarding the reporting of income from installment sales.

Section 76 of Chapter 35 of the Statutes of 2002 is amended.

This act made nonsubstantive changes regarding the treatment of certain S corporations.

Uncodified Law

This act treats payments made by an exempt organization due to terrorist attacks against the United States on September 11, 2001, or an attack involving anthrax occurring on or after September 11, 2001, and before January 1, 2002, as related to the purpose or function constituting the basis for that organization's exemption from taxes. This subdivision applies to payments made on or after September 11, 2001.

This act excludes from income any discharge of indebtedness by reason of death or injury of a person arising from the terrorist attacks against the United States on September 11, 2001, or an attack involving anthrax occurring on or after September 11, 2001, and before January 1, 2002.

Allow All Taxpayers To Be Eligible For Disaster Relief/Conformity To Federal Victims of Terrorism Relief Act/AB 1122 Federal Conformity Clean-Up

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Return requirements under Section 6050P of the Internal Revenue Code do not apply to these discharges. This subdivision applies to discharges made on or after September 11, 2001, and before January 1, 2002.

This act is effective immediately as an urgency statute. Some of the provisions related to the Victims of Terrorism Tax Relief act specify an operative date that would apply to taxable years ending before, on, or after September 11, 2001.

This act will not require any reports by the department to the Legislature.